

TRANSPORT CORPORATION OF INDIA

Rating: ◀▶ | Target price: ▼ | EPS: ▶▶

CMP
Rs. 649

Target Price
Rs. 800

Rating
BUY

Avendus[^]
SPARK

ONE YEAR OUTLOOK

Business & Earnings ▶▶

- Maintain our positive stance on TRPC as it is expected to benefit from 1) steady automotive demand coupled with addition of new clientele across verticals, driving TCI Supply Chain (SCS) growth, 2) sustained demand for coastal shipping (new ship addition expected end of FY24), 3) traction in multimodal logistics, & 4) increasing contribution of less-than-truckload (LTL) in freight segment (margin-accretive).
- In 4QFY23, SCS segment revenue grew 29% YoY led by incremental business from existing clientele and new business wins. Expect healthy automotive demand (~80% of revenues), multimodal opportunities (3 trains to carry finished vehicles) and cold chain opportunities to drive revenue & EBITDA CAGR of 11%/12% (FY23-25E).
- Seaways revenue declined 5% YoY due to lower freight rates and falling fuel prices. EBITDA margins at 39.6% expanded by 200bps QoQ. We see margins hovering at 33% in FY24E/FY25E, factoring lower opportunistic international volumes and sustained freight rates. We expect ship addition towards the end of 2HFY24. Seaways segment's revenue & EBITDA are likely to grow at 16%/7% CAGR respectively (FY23-25E).
- Freight division is likely to benefit from 1) higher LTL contribution (40% by FY25 from 36% in FY23), 2) shift from unorganised sector, and 3) growth in multimodal logistics. Expect a revenue and EBITDA CAGR (FY23-25E) of 11%/16% respectively.

Valuation Multiples ▶▶

- Valuing TRPC based on SOTP (page 6) to arrive at TP of Rs.800. Our multiple for Freight (6x EVEBITDA) factors in increasing share of LTL (RoCE- accretive); for Seaways, our multiple (10x EVEBITDA) factors in strong growth & healthy margins. Despite capex (~Rs. 4.5bn through FY24-25) towards addition of ship, infrastructure and technology, RoCEs likely to sustain at 17% through FY25.

FINANCIAL SUMMARY

	Net Sales (Rs mn)	EBITDA (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY22	29,046	13.4	2,674	34.6	19	13	22
FY23	34,287	11.8	3,045	39.4	17	13	21
FY24E	38,070	11.0	2,802	36.2	19	12	17
FY25E	43,170	11.4	3,350	43.3	15	10	17
FY26E	47,942	11.7	3,919	50.7	13	8	18

THREE YEAR OUTLOOK

Business & Earnings ▶▶

- Expect TRPC to benefit from 1) shift in volumes from the unorganised to organized sector, and 2) traction in multimodal logistics (TRPC is one of the few players with presence across value chain), which would drive revenue & EBITDA CAGR of 12%/14% respectively through FY23-27E.
- TRPC's established infrastructure, long-standing customer relationships and experienced management team (vintage of ~six decades) are expected to aid its position as a preferred 3PL partner. Furthermore, the company's presence across the multimodal logistics value chain (JV with Concor for rail transportation & fleet of ships for waterway transportation) allows it to provide efficient end-to-end logistics solutions. Robust demand for multimodal logistics is likely to drive coastal shipping volume growth, benefiting Seaways division. Expect addition of new ship every 15-18 months to cater to incremental demand. However, increasing competition may dilute realization and profitability.
- Expect freight segment to benefit from higher contribution from LTL services. Freight segment's share in overall revenues to reduce from 47% in FY22 to ~42% by FY27E.

Valuation Multiples ▶▶

- Improving operating cashflows, combined with reducing debt, are expected to drive RoCE (12% in FY21 to ~18% in FY27E). Based on FY27E estimates, we see a potential upside of 82% (incl. dividends).

KEY ESTIMATES REVISION

	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Sales	37,943	38,070	0%	42,771	43,170	1%
EBITDA (%)	11.0	11.0	0 bps	11.4	11.4	0 bps
PAT	2,763	2,802	1%	3,298	3,350	1%
EPS	35.7	36.2	1%	42.7	43.3	1%
Implied Target P/E	Before Results: 18.5			After Results: 18.5		

All figures in Rs.Mn

OUTLOOK REVIEW 4QFY23

22 May 2023

Industry LOGISTICS

Key Stock Data

Bloomberg	TRPC IN
Shares o/s	78mn
Market Cap	Rs. 50bn (\$628mn)
52-wk High-Low	Rs. 845-555
3m ADV	Rs. 45mn (\$1mn)
F&O	No

Latest Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoters	69.0	69.0	69.0
Institutions	15.2	15.0	15.0
Public	15.8	16.0	16.0
Pledge	0.0	0.0	0.0

Stock Performance (%)

	1m	3m	12m
TRPC	10.1	4.1	-7.3
Sensex	3.1	0.7	16.4

RESEARCH ANALYSTS

Mukesh Saraf
mukesh.s@avendusspark.com
+91 44 4344 0041

N.J. Krupashankar
krupashankar.n@avendusspark.com
+91 44 4344 0098

Quarterly Financial Statement

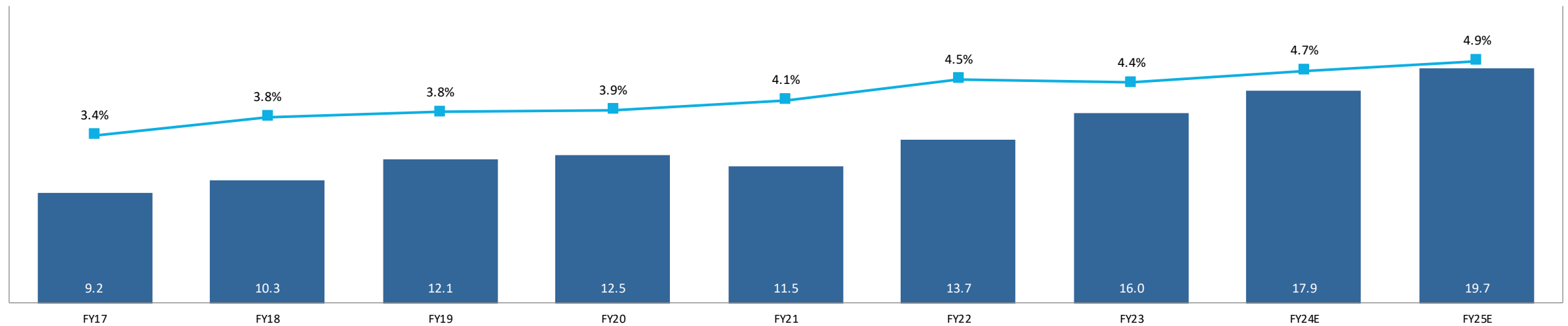
- TCI's freight segment reported revenues of Rs. 4.2bn, up 8% YoY and 5% QoQ. The segment's EBIT margins at 4.5%, were down 10bps sequentially.
- Supply Chain segment reported revenues at Rs. 3.3bn, up 29% YoY and 4% QoQ. EBIT margins at 6.5%, were up 60bps sequentially.
- Seaways segment revenues at Rs. 1.5bn, were down 5% YoY and 11% QoQ. EBIT margins at 27.7% expanded 80bps QoQ.
- Gross margin at 21.2%, was flattish QoQ
- OCF for FY23 was at Rs. 3.4bn while capex incurred for the period was Rs. 1.5bn

Standalone Financial Results

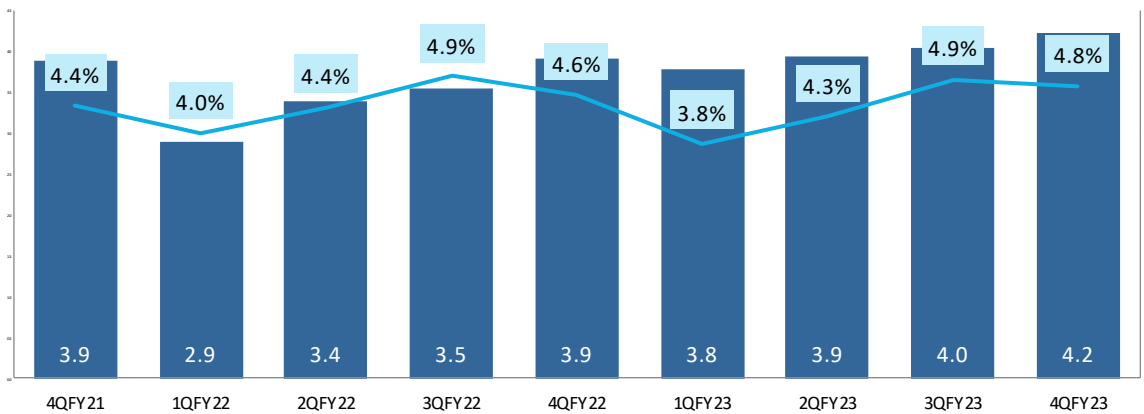
Rs. mn\Period	4QFY23	4QFY22	yoy Growth	3QFY23	qoq Growth	FY22	FY23	Yoy Growth
Revenue	8,897	7,979	11.5%	8,808	1.0%	29,046	34,287	18.0%
Operating expense	7,010	6,144	14.1%	6,939	1.0%	22,548	27,122	20.3%
Emp. cost	493	422	16.8%	476	3.4%	1,638	1,896	15.8%
Other expenses	340	277	22.6%	305	11.5%	956	1,218	27.4%
Total Expenditure	7,843	6,843	14.6%	7,721	1.6%	25,141	30,236	20.3%
EBITDA	1,054	1,136	-7.2%	1,088	-3.1%	3,904	4,050	3.7%
Margin%	11.9%	14.2%	-239 bps	12.4%	-50 bps	13.4%	11.8%	-163 bps
D&A	299	360	-17.0%	301	-1.0%	1,076	1,168	8.5%
EBIT	756	777	-2.7%	787	-3.9%	2,829	2,883	1.9%
Other income	114	78	47.4%	289	-60.4%	311	638	105.0%
Net Interest exp (inc)	21	19	8.4%	22	-5.9%	109	82	-24.5%
PBT	840	835	0.5%	1,053	-20.3%	3,031	3,439	13.5%
Tax provision	98	104	-5.7%	100	-1.6%	357	394	10.3%
Tax rate%	11.7%	12.5%	-6.2%	9.5%	223 bps	11.8%	11.4%	-32 bps
PAT (Reported)	741	731	1.4%	953	-22.2%	2,674	3,045	13.5%
PAT (Adjusted)	741	731	1.4%	953	-22.2%	2,674	3,045	13.5%
Adjusted PAT Margin %	8.3%	9.2%	-83 bps	10.8%	-249 bps	9.2%	8.9%	-36 bps
Shares Outstanding	77	77		77		77	77	
EPS (Reported)	9.6	9.5	1.4%	12.3	-22.2%	34.6	39.3	13.5%
EPS (Adjusted)	9.6	9.5	1.4%	12.3	-22.2%	34.6	39.3	13.5%

Freight segment to benefit from higher LTL contribution

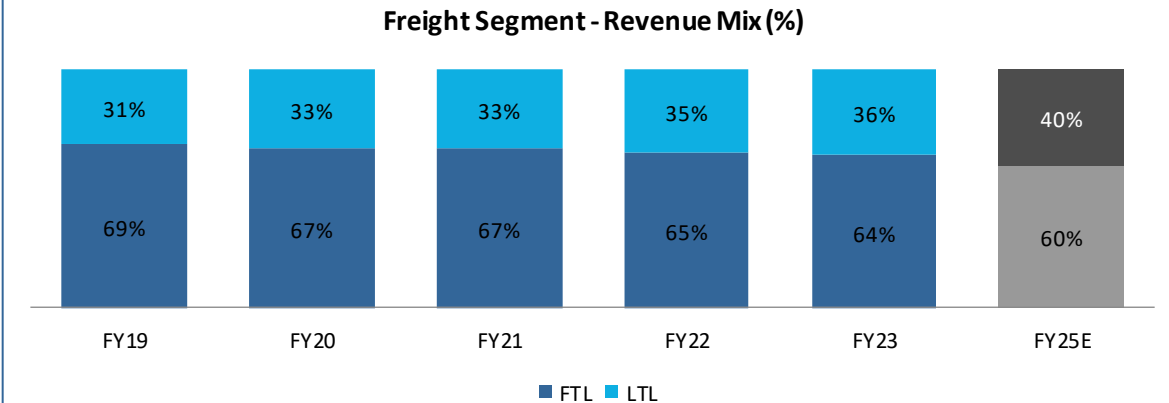
Freight Revenue CAGR estimated at 11% through FY23-25E driven by underlying macro-led FTL growth; Margin expansion led by emphasis on increasing LTL contribution



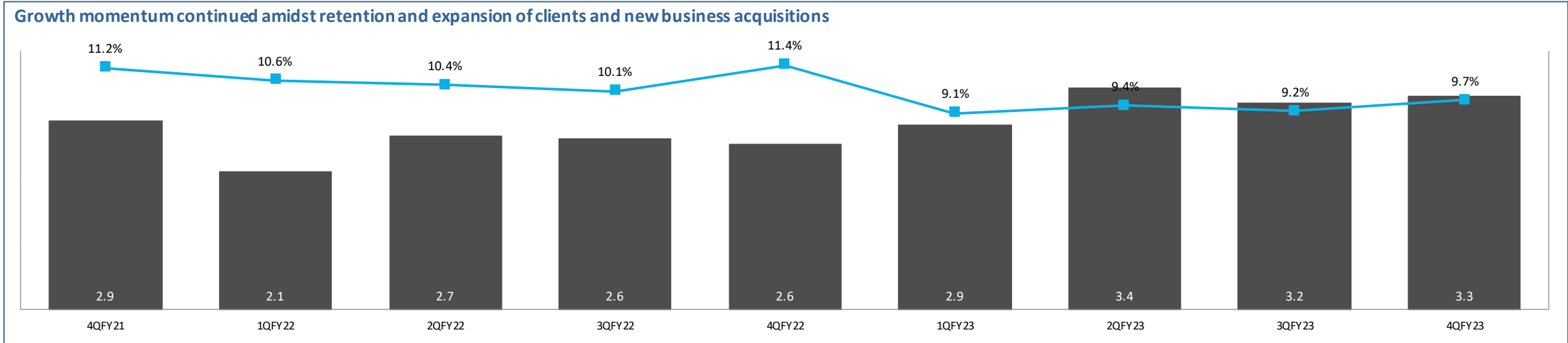
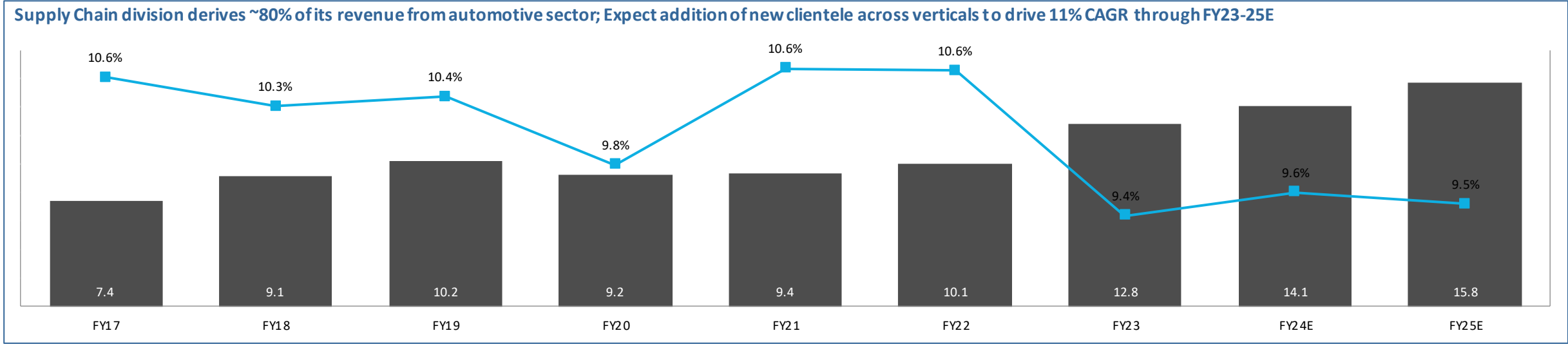
Growth momentum amid festive season/year-end stocking & high volumes from large customers



LTL contribution likely to reach 40% by FY25E, a growth of 14% CAGR through FY20-25E

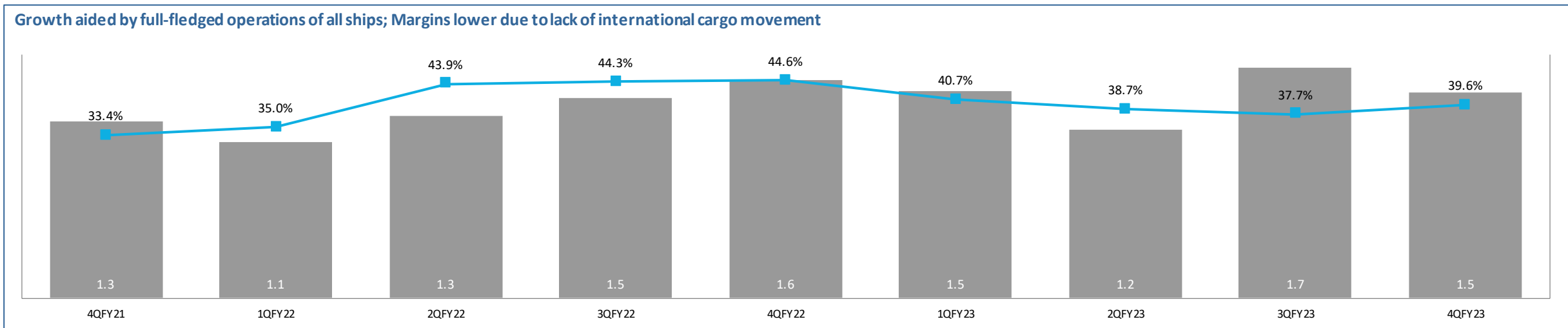
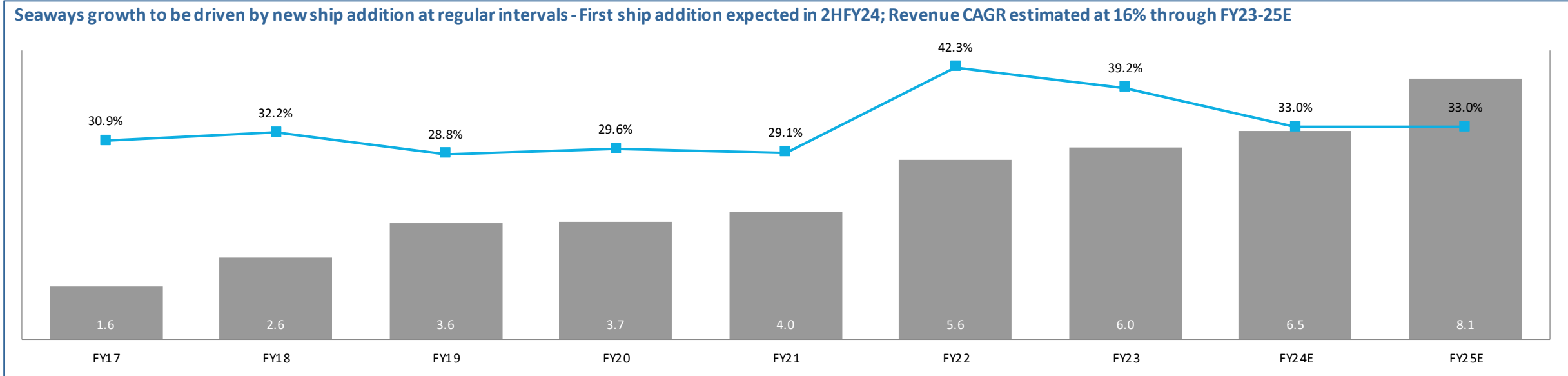


SCS segment to benefit from automotive demand recovery and addition of new clientele across verticals



Source – Avendus Spark

Healthy growth in Seaways segment to be driven by ship addition in 2HFY24E



SOTP

Arriving at Target price based on SOTP valuation			
SOTP	Rs./Share	Value (Rs. mn)	Basis
TCI Freight		5,780	6x FY25e EV/EBITDA
TCI SCS		19,422	13x FY25e EV/EBITDA
TCI Seaways		26,749	10x FY25e EV/EBITDA
Others		63	2x FY25e EV/EBITDA
Net Cash(Net Debt)		2,513	
Value from TCI	705	54,528	88.1% of Total
Value from JV	94	7,255	11.7% of Total; Adjusted for hold co discount
No. Of Shares O/s (mn)		77	
Target Price	800	61,782	

Financial Summary

Standalone Financial Statements

Rs mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit & Loss										
Revenue	21,778	25,583	25,134	24,520	29,046	34,287	38,070	43,170	47,942	54,295
Gross profit	4,288	4,888	4,864	4,782	6,498	7,164	7,974	9,129	10,234	11,699
EBITDA	2,083	2,442	2,335	2,479	3,904	4,050	4,169	4,905	5,611	6,802
Depreciation	673	752	777	881	1,076	1,168	1,303	1,464	1,591	1,750
EBIT	1,410	1,690	1,558	1,598	2,829	2,883	2,866	3,441	4,020	5,051
Other Income	245	269	283	352	311	638	554	624	715	832
Interest expense	299	356	324	248	109	82	44	29	13	13
Exceptional items	40	0	99	140	0	0	0	0	0	0
PBT	1,316	1,603	1,419	1,562	3,031	3,439	3,376	4,036	4,722	5,870
Reported PAT (after minority interest)	1,037	1,276	1,264	1,348	2,674	3,045	2,802	3,350	3,919	4,872
Adj PAT	1,037	1,276	1,264	1,348	2,674	3,045	2,802	3,350	3,919	4,872
EPS (Rs.)	13.5	16.7	16.5	17.6	34.6	39.4	36.2	43.3	50.7	63.0
Balance Sheet										
Net Worth	6,769	8,370	9,500	10,804	13,131	15,677	17,859	20,512	23,733	27,908
Total debt	4,238	4,496	4,083	2,735	765	846	846	455	455	455
Other liabilities and provisions	535	1,290	1,263	1,375	1,491	1,697	1,853	2,064	2,261	2,524
Total Networth and liabilities	11,985	14,546	15,109	15,177	15,634	18,474	20,812	23,284	26,703	31,141
Gross Fixed assets	10,345	11,917	13,159	14,305	15,382	16,410	19,560	20,860	23,060	25,260
Net fixed assets	6,236	7,055	7,521	7,786	7,787	7,648	9,495	9,330	9,939	10,389
Capital work-in-progress	563	40	216	52	73	260	260	260	260	260
Intangible Assets	0	0	0	0	0	0	0	0	0	0
Investments	313	938	888	858	998	1,722	1,722	1,722	1,722	1,722
Cash and bank balances	130	122	178	308	581	1,693	1,395	2,968	4,783	7,446
Loans & advances and other assets	1,604	2,221	2,324	2,223	2,237	2,526	2,804	3,180	3,532	3,999
Net working capital	3,139	4,170	3,982	3,951	3,959	4,626	5,136	5,824	6,468	7,325
Total assets	11,985	14,546	15,109	15,177	15,634	18,474	20,812	23,284	26,703	31,141
Capital Employed	11,450	13,256	13,846	13,802	14,142	16,777	18,958	21,220	24,442	28,617
Invested Capital (CE - cash - CWIP)	10,757	13,094	13,452	13,442	13,489	14,824	17,303	17,992	19,399	20,912
Net debt	4,109	4,375	3,905	2,427	184	-847	-549	-2,513	-4,328	-6,991
Cash Flow										
Cash flows from Operations (Pre-tax)	2,119	2,060	2,748	2,976	3,993	3,591	4,046	4,648	5,514	6,558
Cash flows from Operations (post-tax)	1,768	1,729	2,353	3,043	3,556	3,415	3,472	3,962	4,712	5,560
Capex	1,582	1,046	1,289	1,129	678	1,451	3,150	1,300	2,200	2,200
Free cashflows	186	682	1,064	1,914	2,878	1,964	322	2,662	2,512	3,360
Free cashflows (post interest costs)	-113	327	741	1,667	2,769	1,882	278	2,633	2,499	3,347
Cash flows from Investing	-1,538	-1,481	-1,346	-959	-727	-1,854	-3,150	-1,300	-2,200	-2,200
Cash flows from Financing	316	-255	-964	-1,908	-2,456	-427	-620	-1,088	-697	-697
Total cash & liquid investments	130	122	178	308	581	1,693	1,395	2,968	4,783	7,446

Financial Summary

Standalone Financial Statements

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Key Variables										
Freight Segment Revenue	10,311.0	12,096.4	12,477.9	11,508.2	13,715.7	15,982.3	17,900.2	19,690.2	21,265.4	22,966.6
SCS Segment Revenue	9,125.5	10,189.0	9,249.5	9,376.4	10,051.9	12,803.7	14,073.8	15,762.7	17,339.0	19,072.9
Seaways Segment Revenue	2,564.2	3,593.4	3,677.4	3,952.8	5,577.8	5,989.5	6,484.6	8,105.7	9,726.9	12,645.0
Growth ratios (%)										
Revenue	20.7	17.5	-1.8	-2.4	18.5	18.0	11.0	13.4	11.1	13.3
EBITDA	32.3	17.2	-4.4	6.2	57.5	3.7	2.9	17.6	14.4	21.2
Adj PAT	47.6	23.0	-1.0	6.6	98.4	13.9	-8.0	19.6	17.0	24.3
Margin ratios (%)										
Gross	19.7	19.1	19.4	19.5	22.4	20.9	20.9	21.1	21.3	21.5
EBITDA	9.6	9.5	9.3	10.1	13.4	11.8	11.0	11.4	11.7	12.5
Adj PAT	4.8	5.0	5.0	5.5	9.2	8.9	7.4	7.8	8.2	9.0
Performance ratios										
Pre-tax OCF/EBITDA (%)	102	84	118	120	102	89	97	95	98	96
OCF/IC (%)	16	13	17	23	26	23	20	22	24	27
RoE (%)	16	17	14	13	22	21	17	17	18	19
RoCE (%)	12	13	12	12	20	20	16	17	17	18
RoCE (Pre-tax) (%)	15	16	14	14	22	23	19	20	21	22
Fixed asset turnover (x)	2.3	2.3	2.0	1.8	2.0	2.2	2.1	2.1	2.2	2.2
Total asset turnover (x)	1.9	1.9	1.7	1.6	1.9	2.0	1.9	2.0	1.9	1.9
Financial stability ratios										
Net Debt to Equity (x)	0.6	0.5	0.4	0.2	0.0	-0.1	-0.0	-0.1	-0.2	-0.3
Net Debt to EBITDA (x)	2.0	1.8	1.7	1.0	0.0	-0.2	-0.1	-0.5	-0.8	-1.0
Interest cover (x)	6	5	7	12	33	41	79	139	365	431
Cash conversion days	53	59	58	59	50	49	49	49	49	49
Total Working capital days	71	73	73	71	59	58	58	59	59	59
Valuation metrics										
Fully Diluted Shares (mn)	77	77	77	77	77	77	77	77	77	77
Market cap (Rs.mn)				50,200						
P/E (x)	50	41	41	39	19	17	19	15	13	11
P/Sales (x)	2.4	2.0	2.1	2.1	1.8	1.5	1.4	1.2	1.1	1.0
EV (Rs.mn) (ex-CWIP)	55,435	56,225	55,579	54,265	52,001	50,783	51,081	49,117	47,302	44,639
EV/ EBITDA (x)	27	23	24	22	13	13	12	10	8	7
EV/ OCF(x)	31	33	24	18	15	15	15	12	10	8
FCF Yield (%)	0.4	1.3	2.1	3.7	5.5	3.8	0.6	5.1	4.8	6.5
Price to BV (x)	7.7	6.2	5.5	4.8	4.0	3.3	2.9	2.5	2.2	1.9
Dividend yield (%)	0.3	0.3	0.4	0.2	0.8	1.0	1.2	1.3	1.3	1.3
Dividend pay-out (%)	14	13	15	7	15	18	22	21	18	14

Crystal Ball Gazing

Over FY22-27E, revenue growth is likely to be driven by 1) shift from unorganised to organized sector, 2) logistics supply chain outsourcing to 3PL players, and 3) traction in multimodal logistics. EBITDA growth is expected to be driven by higher contribution from supply chain services(3PL) and increase in movement of freight by multimodal logistics.

Healthy Revenue and EBITDA growth

	FY11-FY14	FY14-FY22	FY22-FY27E
Revenues CAGR	5%	9%	13%
Gross Margin	19%	20%	21%
EBITDA CAGR	3%	18%	12%
EBITDA margin	7.6%	9.4%	12.0%
EPS CAGR	6%	27%	13%
Total Asset Turnover (x)	2.5	2.0	1.9
Total WC days	56	66	59
Pre-tax OCF/EBITDA (%)	87%	104%	96%
Post Tax OCF as a % of IC	15%	18%	24%
Debt/EBITDA	2.1	2.5	(0.4)

Improving operating efficiencies resulting in healthy returns

	FY11-FY14	FY14-FY22	FY22-FY27E
RoE (%)	15.2%	15.9%	19.0%
RoCE (%)	10.9%	12.6%	18.0%
RoIC (%)	15.6%	14.3%	20.9%
Average 1 yr fwd			
PE (x)			
EV/EBITDA (x)			
Peak 1 yr fwd			
PE (x)			
EV/EBITDA (x)			

Healthy operating performance to sustain multiple

SOTP	FY27 EBITDA (Rs.mn)	EV/EBITDA (x)	EV (Rs.mn)
TCI Freight	1,170	6.0	7,017
TCI SCS	1,808	13.0	23,501
TCI Seaways	4,173	10.0	41,728
Others	32	2.0	63
Net Debt (Rs.mn)			-6,991
Mkt Cap (Rs.mn)			79,300
Standalone TP			1,026
JV and Subs (Transystem, TCI Concor, Cold Chain)			111
Target Price			1,137

Entry = Rs. 649 @ 15x FY25E P/E

Cumulative Dividends of Rs.42/share

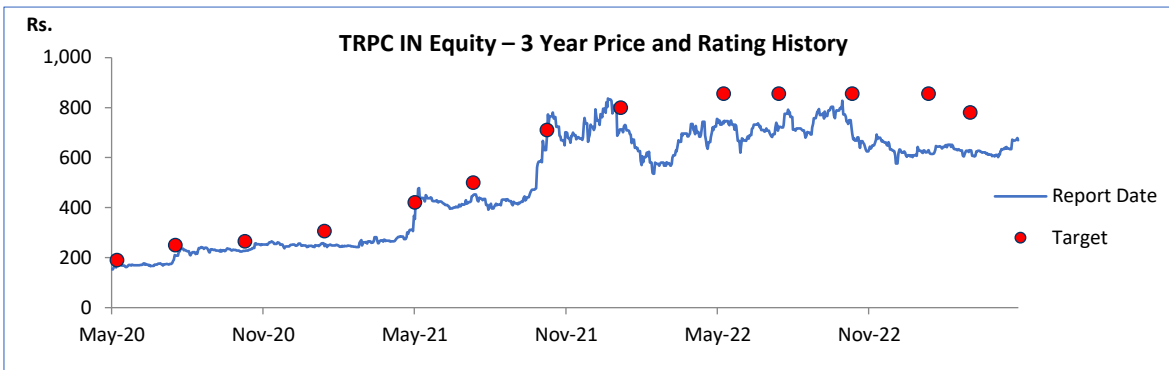
EPS CAGR of ~13%, implied exit multiple of 18x on FY27E P/E

Total Return of 82%

TRPC	Transport Corporation of India
AMR	Autonomous mobile robot
ASC	Automated sort capacity
3PL	<i>Third Party Logistics Service Provider</i>
BPS	Book Value per share
BS	Balance sheet
BV	Book Value
CAGR	Compounded Annual Growth Rate
CASA	Current Account + Savings Account
CC	Cash Credit
D2C	Direct to consumer
CG	Corporate Governance
CMP	Current Market Price
CV	Commercial Vehicle
DPS	Dividend per share
DTA	Deferred Tax Assets
DTL	Deferred Tax Liabilities
EPS	Earnings per share
FI	Financial Institution/Intermediary
JV	Joint Venture
LAP	Loan against Property
LC	Letter of Credit
LCV	Light Commercial Vehicle
LoU	Letter of Undertaking
MHCV	Medium & Heavy Commercial Vehicle
MSE	Micro & Small Enterprises
MSME	Micro, Small & Medium Enterprises
MTM	Marked-to-Market
OI	Other Income
Opex	Operating Expenses
P&L	Profit & Loss
P/BV	Price to Book Value
P/E	Price to Earnings
PAT	Profit After Tax
PBT	Profit Before Tax
PTL/LTL	Part truck load/Less than truck load

RoE	Return on Equity
RoCE	Return on Capital Employed
SaaS	Software as a service
SCV	Small Commercial Vehicle
SCS	Supply chain services
SEBI	Securities & Exchange Board of India
SLA	Service level agreement
SME	Small & Medium Enterprises
SOTP	Sum of the Parts
TP	Target Price
UAV	Unmanned aerial vehicle
UV	Utility Vehicle
WMS	Warehouse management system

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

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28-Jan-22	724	800	BUY
01-Nov-21	630	710	BUY
05-Aug-21	446	500	BUY
27-May-21	367	420	Buy
08-Feb-21	257	305	Buy
05-Nov-20	226	265	Buy
14-Aug-20	210	250	Buy
05-Jun-20	159	190	Buy
03-Feb-20	266	320	Buy
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